

## DECISION MEMORANDUM

**TO:** COMMISSIONER KEMPTON  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** NEIL PRICE  
DEPUTY ATTORNEY GENERAL

**DATE:** MAY 22, 2009

**SUBJECT:** IDAHO POWER'S APPLICATION FOR A RATE INCREASE DUE TO  
INCLUSION OF AMI INVESTMENT IN RATE BASE; CASE NO. IPC-E-  
09-07

On March 13, 2009, Idaho Power Company ("Idaho Power" or "Company") submitted an Application, pursuant to *Idaho Code* §§ 61-502, 61-502A and 61-507, and Commission Rules of Procedure 52, 121 and 123, "for authority to increase its rates due to the inclusion of Advance Metering Infrastructure ("AMI") investment in rate base." Application at 1. The Company requested that its Application be processed through Modified Procedure. IDAPA 31.01.01.201-.204.

On April 2, 2009, the Commission issued a Notice of Application and Modified Procedure establishing a 45-day comment period for interested parties to submit comments regarding Idaho Power's Application. *See* Order No. 30764. Thereafter, Commission Staff, the Snake River Alliance and several Idaho Power customers issued comments within the established comment period. On May 22, 2009, Idaho Power submitted reply comments.

### THE APPLICATION

Idaho Power proposes "a uniform percentage increase of 1.61 percent to Tariff Schedules 1, 4, 5, 7, 9 secondary, 24 secondary, 41 metered service, and 42 (residential, small commercial, irrigation, and metered lighting customer classes)." *Id.* at 3. The Company requests that the proposed increase take effect on June 1, 2009, unless otherwise ordered by the Commission, for service provided on and after that date. *Id.*

Idaho Power cites to “the Company’s investment in AMI through the end of May 2010 into the Company’s rate base/revenue requirement” as justification for the increase. *Id.* at 2. The Company seeks to include the capital investment it has made thus far pursuant a CPCN authorizing the installation of AMI throughout its service territory, *see* Commission Order No. 30726, as well as “those investments that will be made during a June 1, 2009 through May 31, 2010, test year.” *Id.* The Company states that it has included reductions for removed metering equipment and “changes in operating expenses that accompany the changes in plant investment” in its calculations. *Id.* Idaho Power believes that “the proposed test year and recovery of the resulting revenue requirement” are necessary in order to meet “the increased challenges associated with raising capital in the financial markets during the present financial crisis.” *Id.* at 2-3.

Idaho Power estimates that the “13-month average plant in service associated with the AMI system for the test year is \$23,981,251.” *Id.* at 3. The Company also estimates that after applying the Commission authorized rate-of-return of 8.18 percent, authorized three-year depreciation period, operation and maintenance benefits, and applicable tax rates, an increase of \$11,181,318 to the Idaho jurisdictional revenue requirement is warranted. *Id.*

Idaho Power has included revised/proposed tariff sheets reflecting the proposed increase to the Idaho jurisdictional revenue requirement; and a report comparing revenues under its existing rates and revenues generated under its proposed revenue requirement as Attachments 1-3 to its Application. The Company filed the testimony of Gregory W. Said, Director of State Regulation in the Pricing and Regulatory Services Department, and Courtney Waites, Pricing Analyst, simultaneously with, and in support of, its Application.

#### **STAFF COMMENTS**

Staff supports Idaho Power’s request to include AMI investment in rate base and the Company’s request for a June 1, 2009, effective date. Staff Comments at 3. However, Staff believes that the “appropriate test year should end December 31, 2009.” *Id.* Staff concluded that the Company’s proposed recovery period for AMI investment and associated costs and benefits through May 31, 2010, is not warranted because the Company’s “original installation plan” does not include a significant history of actual installations and project costs. *Id.*

The commitment estimate put forth by Idaho Power is based upon a projection of how many units will be installed on a monthly basis through the three-year installation period. *Id.*

Staff feels that it is more appropriate to utilize a test period that takes advantage of the actual investment, costs and benefits incurred to date and project those amounts through the end of the 2009 calendar year. *Id.* A test year consisting of the 2009 calendar year will allow the Company to recover its authorized rate of return, increase its cash flow *and* facilitate the typical project review process. *Id.*

Staff also included two attachments in its comments. Attachment A is a summary of Staff's proposed revenue requirement (\$7,322,995 line 37 of Attachment A). *Id.* at 4, Attachment A. Attachment B is an outline of Staff's proposed rate design. *Id.*, Attachment B. Staff asserted that its proposed test year and "the ongoing AMI project reviews and inclusion in base rates of future AMI expenditures" will be more responsive should Idaho Power receive funds through the American Recovery and Reinvestment Act of 2009. *Id.* The Company continues to pursue the ARRA option but thus far has not been granted approval. *Id.*

Staff also reviewed Idaho Power's methodology regarding the allocation of the increased revenue requirement amongst the various classes impacted by the AMI installation, Schedules 1, 4, 5, 7, 9 Secondary, 24 Secondary, 41 and 42. *Id.* Staff proposes a uniform 1.28 percent base revenue increase for each affected class based upon its proposed "AMI revenue requirement increase of \$7,322,995 . . . and the current overall base revenue of the affected classes . . . from the reconsideration of the general rate case, Case No. IPC-E-08-10." *Id.* at 5. This differs from the Company's proposed 2.22 percent energy rate increase for each class which utilizes the ratio of its calculated additional revenue requirement and total energy revenue from the reconsideration of Case No. IPC-E-08-10. *Id.* at 4.

#### **SNAKE RIVER ALLIANCE COMMENTS**

The Snake River Alliance ("SRA") is an Idaho non-profit organization primarily concerned with nuclear safety issues. SRA has also been actively involved in promoting clean energy initiatives. SRA supports the Company's request to include AMI investment in rate base. SRA acknowledges the fact that the total benefits of AMI installation will not be realized immediately. However, the organization believes that the investment is "sound" and that the "eventual benefits will lead to real energy savings that will benefit all customers . . . through reduced energy bills and a reduced need for additional investments in generation and transmission. . . ."

SRA feels that while the Company has taken steps to explain the benefits of AMI to its customers it could “do more to help its customers better understand how to interpret the data on the face of their new meters.”

### **INDIVIDUAL CUSTOMER COMMENTS**

The Commission received three comments from Idaho Power customers regarding the Application. Two customers were opposed to the increase and one customer took a neutral position. These customers expressed their specific disapproval of the concept of increasing rates in order to fund the Company’s investment in energy conservation and to regular and persistent rate increases in general.

### **IDAHO POWER REPLY COMMENTS**

Idaho Power’s reply comments focus upon Staff’s recommendation that the Commission approve a test year consisting of the 2009 calendar year. Idaho Power Reply Comments at 4. Idaho Power asserts that Staff’s recommended test year will have an “adverse effect on the Company’s ability to provide adequate cash flow to fund the AMI installations, to move forward on the three-year implementation timeline, and . . . remain within the previously discussed Capital Cost Commitment Estimate.” *Id.*

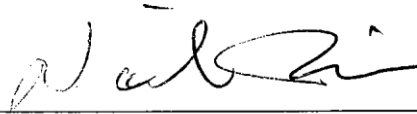
The Company believes that Staff’s recommendation amounts to “nothing more than a reflection of rate base as of mid-year 2009 and 7 months of accelerated depreciation offset by O&M benefits” and is inconsistent “with the prior Commission Orders that envision funding of AMI investments as they occur.” *Id.* Idaho Power does not “understand why less than 12 months of accelerated depreciation should be reflected in the test year.” *Id.* at 5. Staff’s proposed test year will have the practical effect of slowing the accelerated depreciation period for existing metering infrastructure. *Id.* at 6. The Company estimates that a 7-month amortization period (June 1, 2009 through December 31, 2009) recovered over a 12-month period (2009 calendar year) would lead to a recovery of “approximately 58 percent of what the Company needs to stay on a three-year amortization schedule” necessary in order to stay on track with the three-year implementation plan. *Id.*

Finally, Idaho Power takes exception to Staff’s contention that “the Company’s plan and numbers ‘are not tested’” when Staff used the “same plan, investment, and operating costs and benefits to determine their own proposed rates.” *Id.* “Staff provides no logical support for

its conclusion that 7 months of projected amounts are reasonable, but 12 months are not.” *Id.* at 7.

### **COMMISSION DECISION**

Does the Commission wish to approve Idaho Power’s Application for authority to increase its rates due to the inclusion of its AMI investment in rate base? Does the Commission wish to approve Idaho Power’s request for a test year through May 31, 2010?

A handwritten signature in black ink, appearing to read "Neil Price", is written over a horizontal line.

Neil Price  
Deputy Attorney General

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